

**Transcript of Remarks by
Senate Budget Committee Chairman Kent Conrad
at Senate Budget Committee Hearing on Economic Stimulus
October 25, 2001**

Opening Remarks

I want to thank our witnesses, especially for being here today for this hearing on the question of an economic stimulus.

In getting up this morning and reading the Washington Post business section, there was a headline saying the economic rebound is weak, the Fed finds. And in reading the article, what they're reporting is that the Beige Book, which the Fed puts out, has noted economic weakness across the country, a deepening weakness since the attack of September 11. The Fed notes very clearly that there was weakness before the attack.

We all know that that was occurring. If we look at civilian unemployment rate, which is a good indicator, we had seen that ticked up substantially in August and it was at the same rate in September, at 4.9 percent. I think we all anticipate that when the October data is available to us, we'll see another surge in unemployment. On another measure, if we look at economic growth, we see that there was already developing weakness before the events of September 11. As we look at the quarter-by-quarter results, we can see 2000 ended on a fairly weak note, 2001 we saw continued decline. In fact, we're seeing virtually no growth by the third quarter. So, the circumstance we face is one in which we had a weakening economy before September 11. September 11 has been another blow to the strength of the economy, and that's why we have an important discussion about what we can do by way of fiscal policy to stimulate the economy. And that's really what this hearing is about.

Noting that we face this problem, the leaders of the Budget Committees, Republicans and Democrats from the House and the Senate got together and in early October issued a statement of principles to use in measuring any stimulus package. This was bipartisan and bicameral. It involved not only the Senate and House Budget Committee leadership on the Democratic side, but on the Republican side as well. We issued this statement of principles and I'd like to just briefly review them:

"The overall principle. An economic stimulus package should be based on the recognition that long-term fiscal discipline is essential to sustained economic growth. Measures to stimulate the economy should be limited in time so that as the economy recovers, the budget regains a surplus that is at least equal to the surplus in Social Security. Any short-term economic stimulus should not result in higher long-term interest rates.

"Objectives. An economic stimulus package should restore consumer and business confidence, increase employment and investment, and help those most vulnerable in an economic downturn,

and do all of the above without converting a cyclical deficit into a structural deficit.

“Timing. Congress should assemble an economic stimulus package deliberately but with dispatch, aiming for passing within 3-4 weeks, based on the best economic data available.”

We issued this on October 4.

“Rapid impact. A substantial portion of the fiscal impact on the economy should be felt within 6 months.

“Sunset. All economic stimulus proposals should sunset within 1 year, to the extent practicable.

“Targets. Economic stimulus should be broad-based rather than industry-specific. Policies should achieve the greatest possible stimulus effect per dollar spent and should be directed to individuals who are most likely to spend the additional after-tax income and businesses most likely to increase investment spending and employment.

“Size. The economic stimulus package should equal approximately 1 percent of GDP (about \$100 billion) but should count the budgetary effects of policies implemented since August, which, at present, total roughly \$40 billion.

“Offsets. To uphold the policy of repaying the greatest amount of national debt feasible between 2002-11, outyear offsets should make up over time for the cost of near-term economic stimulus.”

Let me repeat again. This is the statement of principles agreed to in a bipartisan manner by the Chairman of the House Budget Committee, Congressman Nussle, by the ranking member of the House Budget Committee, Congressman Spratt, by myself and Senator Domenici, the ranking member of the Budget Committee here. So it was completely bipartisan, bicameral and it was an agreement we were able to reach without rancor and without even a raised voice. That is truly remarkable in this town. I think those principles are the correct principles to judge any stimulus package.

We’re going to have a hearing this morning and we have three very distinguished witnesses. The ranking member is joining us and I’m going to give him a moment to collect his thoughts and we’d be delighted to hear from him.

Mid-Hearing Remarks

I believe the economic downturn is more serious than has generally been recognized. I’ve talked to business leaders all across the country in the last three weeks, and I was with a group of some of the leading – about 100 – hi-tech company leaders the other night at a dinner in which four of the leaders spoke. And I tell you it was a very sobering discussion. Leo Henry who headed Global Crossing. We also heard from Craig McCaw, McCaw Cellular, who is, as you know, is deeply involved in a number of hi-tech ventures.

I tell you, to listen to their description of what has happened to business after September 11 and the over-capacity that they think existed, especially in telecommunications, prior to that time was a sobering circumstance. And, I think we all have to take very seriously what we see happening. I think it requires an immediate stimulus of substantial size, but we also have to be smart about what the make-up of that stimulus is. Part of judging what we're doing here I think has to be informed by our overall long-term budget circumstance.

And we have just done another detailed look at our long-term budget circumstance, and let me just share it with you now. We started this year with a forecast from the Congressional Budget Office of \$5.6 trillion of unified surplus, that's all funds jackpotted, \$5.6 trillion of surplus over the next 10 years. That's what we were told. Of course, the significant amount of that was trust fund monies, nearly \$3 trillion was Social Security money, about \$600 billion was Medicare trust fund money. Let me just tell you that in the latest look that we did on a bipartisan basis to establish a new baseline we were down from \$5.6 trillion to \$2.6 trillion. That was done just weeks ago. It had the agreement of the budget leaders of the House and the Senate, Republican and Democrat, and the Office of Management and Budget.

We have now gone back and done another cut, because remember that baseline does not include budget resolution policies not yet enacted. When you take those out, when you take a look at major initiatives that have not yet passed one body but have passed the other, if you look at those initiatives, for example, the education bill that has passed the Senate; railroad retirement that has passed the House; patients bill of rights that has passed the Senate; energy bill that passed the House; if you add those initiatives, on top of that, if you take out an adjustment for the alternative minimum tax problem just created by the last tax bill, not the whole alternative minimum tax problem just the one created by the last tax bill; and you make a further adjustment for reductions in productivity growth from what was forecast, and a very modest adjustment there that I might add, one that I think will be made in the January forecast; a modest additional package for New York, by modest I mean \$10 billion over the next 4 years; and the economic stimulus package at \$70 billion this year. What you come down to is only \$700 billion left.

Five-point-six trillion dollars goes down to \$700 billion on a unified basis. Every dime of the Medicare Trust Fund surpluses is gone. And a very substantial chunk of the Social Security money is gone, \$1.6 trillion of the Social Security money. That money was supposed to be used to pay down the debt. We no longer will have maximum pay down of the debt or anything close to it.

I think one of the most important things I'd say to you is that I think when that January forecast comes in we're not going to see productivity growth at 2.7 percent. I don't think we're going to see, regrettably, as strong of an economy going forward as was previously anticipated.

Closing Remarks

I thank you very much. This was a hearing we wanted to hold earlier, but unfortunately it was right after a series of events that obviously closed down other hearing rooms. And here we are in an unusual setting in an unusual time.

I just thank you all very much for your help. I think you've done a real service here today. I can tell you these ideas, I think all of you have been very thoughtful witnesses. These ideas are going to help inform what I support and what I oppose.

And I think it is critically important that we get together. Senator Domenici and I just had a conversation. One of the reasons we got together on a bipartisan basis – those of us who are responsible for the Budget Committees of the House and the Senate – is that we wanted to try to bridge the partisan divides, and we did that. We did that with respect to a new financial outlook for the country, a new set of projections for our colleagues, we did that with respect to a set of principles to apply to a stimulus package. We also are very much united in the view that we need to now move to form a stimulus package because that in and of itself will provide some boost to confidence. I think Dr. Hassett you said that we are moving, and moving effectively itself is a confidence building measure. So I am very hopeful now that we don't get bogged down. We were just having a conversation up here about the danger of that. We see that danger growing. We see differences growing.

I met with a number of colleagues yesterday in the leadership on the Republican side and told them I think it's going to require Presidential leadership at this time to bring people back together. Because what's happened unfortunately is we were on a bipartisan path, and that's gotten interrupted, but that can be just a momentary interruption in what has been an incredibly positive coming together in light of this vicious attack on our country. I think it is terribly important that we find a way to come back together and do it quite quickly and I think it is going to take the President calling the combined leadership together to ask them to sit down and to try to come up with a package that could be enacted quickly and effectively. And, I just want to say that you have helped that process here today.

Thank you very much.